

AT&T CORP.

Summary of Medical Benefit Provisions

Type Of Expense

The Plan Pays *

OTHER COVERED CHARGES
in excess of deductible. (The deductible equals 1% of the annual pension benefit but not more than \$150 nor less than \$25 per person per calendar year. There is a limit of three individual deductibles per family in a calendar year. There is a "three-month carryover" provision and a "one-deductible-per-family common accident" provision.)

80% of the reasonable and customary charges for most other covered expenses, including mammography screening tests on an annual basis for women age 50 and older, until "Other Covered Charges" total \$5,000, then.

100% of any remaining covered expenses for the rest of that calendar year

For nonhospital psychiatric care, the Plan pays 50% of the reasonable and customary charges.

MAXIMUM BENEFITS UNDER "OTHER COVERED CHARGES"

\$50,000 in lifetime benefits for the retiree during retirement and for each covered dependent.

The first \$3,500 of benefits each calendar year are not applied toward this maximum.

Retirees may elect, at the time of retirement \$50,000, \$100,000, or \$200,000 of additional lifetime coverage. The retiree pays a premium for this additional coverage.

* See n.* on Appendix E, p. 4 of 16.

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Summary of Medical Benefit Provisions

II. All Retirees and Their Eligible Dependents Who Become Eligible for Medicare:

The Plan will subtract any benefits available under Medicare from the Plan benefits otherwise payable

III. Coordination of Benefits

The Plan has a Coordination of Benefits provision which is designed to prevent duplicate benefit payments when covered persons are also eligible for medical benefits under another employer plan to which this plan is secondary. Reimbursement under all plans combined may not exceed 100% of covered expenses

IV. Health Maintenance Organizations

Each year a retiree will be given an opportunity to retain medical coverage under the Plan or to enroll in a Company-approved Health Maintenance Organization (HMO), if available in his/her locality. The Company will contribute toward the HMO up to the same amount it would pay toward coverage under the Plan; any additional costs for the HMO are paid by the retiree

V. Continuation of Coverage

Upon death of a retired employee, Plan coverage for dependents continues at Company expense for six months. This coverage may be continued by the spouse at cost. Continuation of coverage is also available as required under federal law (COBRA).

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Summary of Medical Cost Sharing Provisions

I. Medical Benefits

For any employee who retired before March 1, 1990, the Company pays most of the cost of the Plan, except for Class II and Sponsored dependents for whom the retiree pays the entire cost. In addition, certain amounts such as deductibles, co-payments, the excess of any HMO premiums, etc., are paid by the retiree.

For any employee who retires on or after March 1, 1990, the Company will continue the following contributions yearly for medical coverage for a retired employee:

Retired under age 65	- single coverage	\$2,650
Retired under age 65	- joint coverage	\$5,650
Retired age 65 or over	- single coverage	\$ 500 *
Retired age 65 or over	- joint coverage	\$1,800 *

Any costs in excess of an established level payable by the Company will be shared by participants through monthly payments. However, no premium payments will be required of any retiree prior to July 1, 1995, regardless of the year during which the employee retired.

* As of July 1, 1992 the cost-sharing provisions for retirees age 65 and over were amended to reflect the effect of the repeal of the Medicare Catastrophic Coverage Act on claims costs; the Company's annual contribution for single coverage was increased to \$850 and its annual contribution for joint coverage was increased to \$2,350.

II. Medicare Part B Premiums

For any employee who retires before March 1, 1990, the Company reimburses the entire amount of Medicare Part B premiums for Medicare-eligible retired employees and/or their spouses.

For any employee who retires on or after March 1, 1990: the amount the Company reimburses for Medicare Part B premiums for Medicare-eligible retired employees and/or their spouses shall not exceed \$33.00 per month provided, however, that if such Medicare Part B premium exceeds such amount prior to July 1, 1995, the limit of \$33.00 per month shall not apply until such date.

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Summary of Dental Benefit Provisions

I. The Traditional Option

Type Of Expense

The Option Pays

Type A Services

Routine Oral Examinations
Prophylaxis (cleaning and scaling of teeth)
Fluoride treatments
Space maintainers (for dependent children
under age 19 only)
X - rays (dental X - rays, radiographs)

100% of the reasonable and customary
charges, subject to certain limitations on the
frequency of covered services.

Type B Services

Restorations
Oral surgery excluding procedures covered
by the Medical Expense Plan
Endodontics
Periodontics
Prosthodontics
Orthodontics
General anesthesia

Scheduled Amounts Only after a one-time
deductible of \$50 for each covered person,
subject to certain limitations on covered
services

Annual Maximum

\$1,250 per person per year.

Lifetime Orthodontia Maximum

\$1,250 per person.

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Summary of Dental Benefit Provisions

II. The DMO Option

The DMO is a dental provider network which covers almost all of the services of the Traditional Option while offering: No deductible when using a network dentist, no annual maximum and lower out-of-pocket expenses. To be eligible for DMO benefits, the retiree must enroll in the DMO. Certain limited benefits for services received from a Nonparticipating Dentist are available under the DMO option

Type of Expense

The Option Pays

Basic Services - Part A

100% of network dentist's eligible charge

Routine Oral Examinations
Prophylaxis (cleaning and scaling of teeth)
Fluoride treatments
Space maintainers (for dependent children under age 19 only)
X-rays (dental X-rays, radiographs)
Endodontics
Restoration and repairs (other than those listed in Basic Service - Part B)
Periodontics
Oral Surgery

Basic Services - Part B

75% of network dentist's eligible charges

Restorations (inlays, onlays, crowns, posts, pontics, dentures, stress breakers, stay plates and repair of these items)
Space maintainers

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Summary of Dental Benefit Provisions

<u>Type Of Expense</u>	<u>The Option Pays</u>
<u>Specialty Services - Part A</u>	100% of network specialty dentist's eligible charges
Endodontics	
Oral Surgery	
Periodontics	
 <u>Specialty Services - Part B</u>	75% of network specialty dentist's eligible charges
Complex root canal	
Surgical removal of impacted tooth	
Osseous surgery	
Intravenous sedation and general anesthesia	
 <u>Orthodontia</u>	50% of network specialty dentist's eligible charges
Overbite	
Overjet	
Faulty alignment	
Cross-bite	

III. Coordination of Benefits

The Plan has a Coordination of Benefits provision which is designed to prevent duplicate benefit payments when covered persons are also eligible for dental benefits under another employer plan.

IV. Continuation of Coverage

Continuation of Coverage is available as required under federal law (COBRA).

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Life Insurance
Summary of Post-retirement Eligibility and Benefit Provisions

ELIGIBILITY

Under the current provisions of the plan all present retirees and active employees upon retirement are covered by life insurance during retirement. In order to be eligible for coverage during retirement an employee must retire and be granted a Service or Disability Pension by the Company.

The retirement eligibility requirements are as follows:

Retirement Eligibility

<u>Age</u>		<u>Minimum Years of Service</u>	<u>Type of Retirement</u>
<u>Management and Nonmanagement</u>			
65	and	10	Service Pension
55	and	20	Service Pension
50	and	25	Service Pension
Any Age	and	30	Service Pension
Any Age	and	15	Disability Pension

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Life Insurance
Summary of Post-retirement Eligibility and Benefit Provisions

INSURANCE AMOUNTS DURING RETIREMENT

For future retirements, the Basic Life Insurance after retirement will equal the annual rate of basic pay at retirement rounded to the next higher \$1,000 times the following percentage:

<u>Age</u>	<u>Percentage</u>
65 or less	100%
66	90%
67	80%
68	70%
69	60%
70 or more	50%

"Annual basic pay" means annual rate of pay including bonuses, incentives and merit awards when they are a permanent part of compensation. Tour differentials and any differentials regarded as temporary or extra payments are excluded.

There is no AD&D or Accidental Loss insurance after retirement.

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**Summary of Post-retirement
Telephone Concession Eligibility and Benefit Provisions**

ELIGIBILITY

Under the current provisions of the plan present retirees and active employees upon retirement are entitled to discounts to residential telephone service charges during retirement. In order to be eligible for coverage during retirement an employee must retire and be granted a Service or Disability Pension by the Company

The retirement eligibility requirements are as follows

Retirement Eligibility

<u>Age</u>		<u>Minimum Years of Service</u>	<u>Type of Retirement</u>
<u>Management and Nonmanagement</u>			
65	and	10	Service Pension
55	and	20	Service Pension
50	and	25	Service Pension
Any Age	and	30	Service Pension
Any Age	and	15	Disability Pension

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Summary of Post-retirement
Telephone Concession Eligibility and Benefit Provisions

BENEFITS

Retiree classification	Monthly discount	Maximum Discount
1) Management and Nonmanagement retirees who retired prior to 1984 from the following entities AT&T Communications (Long Lines) AT&T Corporate Headquarters (General Departments) AT&T Information Systems	100% of the first \$125 of eligible charges Eligible charges include Local telephone service Customer premise Connection and disconnection charges Maintenance, wiring and repair AT&T inter-LATA charges	\$125
2) Nonmanagement retirees* who retired prior to 7/8/89 and all management retirees* * if not included in item (1)	100% of the first \$35 of AT&T inter-LATA charges plus 50% of the next \$65 of AT&T inter-LATA charges	\$67.50
3) Nonmanagement retirees who retired or will retire after 7/7/89	100% of the first \$50 of AT&T inter-LATA charges	\$50.00

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APPENDIX F
ASSUMPTIONS FOR DETERMINING
1993 SFAS 106 EXPENSE

Demographic Assumptions (Sample Rates)

Mortality: (Rates per 1,000 during year of age $x + 5$ to $x + 15$)

Among Active Employees			Among Retired Employees		
<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
25	8	.4	50	7.9	5.9
30	7	.6	55	10.1	7.1
35	8	.8	60	13.2	9.2
40	1.5	1.0	65	19.6	12.7
45	2.7	1.7	70	31.5	20.2
50	4.5	2.5	75	47.6	32.0
55	7.5	3.7	80	76.1	49.8

Separation: (Rates per 1,000 during year of service $n + 5$ to $n + 15$)

Management			Occupational		
<u>Service</u>	<u>Male</u>	<u>Female</u>	<u>Service</u>	<u>Male</u>	<u>Female</u>
0	112.0	118.1	0	340.0	310.0
5	67.6	88.5	5	90.6	108.3
10	53.0	70.6	10	63.6	86.3
20	39.1	57.0	20	29.1	46.3

Service Retirement: (Rates per 1,000 during year of age $x + 5$ to $x + 15$)

Management			Occupational		
<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
50	25.4	64.5	50	60.0	52.7
55	72.1	136.3	55	92.4	76.2
60	235.6	313.3	60	232.6	211.4
65	500.0	500.0	65	600.0	500.0

Demographic Assumptions (Sample Rates) (cont.)

Disability Retirement (Rates per 1,000 during year of age $x + .5$ to $x + 1.5$)

<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
30	0.1	0.4	50	3.4	5.2
35	0.3	1.3	55	6.2	7.9
40	0.9	2.4	60	14.1	13.7
45	1.6	3.3			

Rates of Salary Increase (Rates during year of service $n + .5$ to $n + 1.5$)

<u>Service</u>	<u>Management</u>	<u>Occupational</u>
0	14.50%	19.00%
5	7.10%	6.00%
10	6.00%	5.52%
15	5.72%	5.37%
20	5.60%	5.35%

Retirees with Dependents (Rates during year of age $x + .5$ to $x + 1.5$)

<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
50	77%	50%	70	78%	36%
55	79%	49%	75	76%	22%
60	80%	47%	80	71%	17%
65	80%	40%	85	62%	14%

Retirees with Spouses on Medicare Part B (Rates during year of age $x + .5$ to $x + 1.5$)

<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
55	0%	0%	75	76%	22%
60	0%	19%	80	71%	17%
65	16%	40%	85	62%	14%
70	78%	36%	90	52%	9%

Economic Assumptions

- A. Discount Rate: 8.25%
- B. Long-Term Rate of Return: 9.00%
- C. 1992 Per Retiree Net Claim Costs

(1) Medical Plan

<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
Less than 45	\$13,771	\$14,032	70 - 74	\$2,472	\$1,382
45 - 49	4,679	5,717	75 - 79	2,529	1,382
50 - 54	4,419	3,899	80 - 84	2,557	1,471
55 - 59	5,198	4,419	85 - 89	2,794	1,619
60 - 64	5,976	4,470	90 - 94	3,088	1,764
65 - 69	2,943	1,471	95 - 99	3,382	1,911
			100 & over	3,530	2,060

(2) Dental Plan: \$298

(3) Telephone Concession Reimbursement

	<u>Management</u>	<u>Occupational</u>
Pre Divestiture	\$394.03	\$203.98
Post Divestiture	337.28	228.17

- D. Trend Rates: Trend rates to mid-point of year shown:

<u>Year</u>	<u>Medical Care</u>		<u>Dental Care</u>	<u>Medicare Part B Reimbursement</u>	<u>Telephone Concession Reimbursement</u>
	<u>Pre - 65</u>	<u>Post - 65</u>			
1993	12.5%	8.1%	3.8%	15.1%	0.0%
1994	11.5	9.1	3.9	12.3	0.0
1995	10.5	8.0	3.9	12.2	0.0
1996	9.8	7.5	3.9	4.5	0.0
1997	9.0	7.4	3.9	4.5	0.0
1998	8.2	6.9	3.9	4.5	0.0
1999	7.5	6.7	3.9	4.5	0.0
2000	6.8	6.5	3.9	4.5	0.0
2001 - 2004	6.5	6.4	3.9	4.5	0.0
2005 - 2010	6.4	6.3	4.0	4.5	0.0
2011 - 2020	5.9	5.8	4.1	4.5	0.0
2021 - 2030	5.7	5.7	4.5	4.5	0.0
2031 - 2032	5.7	5.7	5.0	4.5	0.0
2033 - 2040	5.6	5.6	5.0	4.5	0.0
2041 & Later	5.6	5.6	5.5	4.5	0.0

APPENDIX G
INFORMATION ON THE DETERMINATION OF
CLAIMS COSTS PER RETIREE FOR
1993 SFAS 106 COSTS

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I. A description of the AT&T retiree data and records used to develop per retiree claims cost.**A. Medical Benefits**

The 1992 medical incurred claim costs were derived from the Company's actual 1991 claims experience and exposure data, for management and nonmanagement retirees combined. These data were available separately for retirees under age 65 and their eligible dependents, and retirees age 65 and over and their eligible dependents. (AT&T maintains a comprehensive medical claim data base. The claim data entered into the medical data base is received from Empire Blue Cross/Blue Shield and Travelers Insurance Company.)

The following adjustments were made to this claim experience:

1. A deduction was made from the paid claims for the premiums collected from retirees and surviving spouses of retirees for Class II, sponsored and surviving dependents coverage.
2. The resulting net paid claims were then adjusted to an incurred basis by adding an amount equal to the estimated increase in the liability for claims incurred but not yet paid from the beginning to the end of the calendar year.
3. The incurred claim costs were then adjusted to include insurance carrier administrative expenses.
4. The average 1991 incurred claim costs per retiree under age 65 and per retiree age 65 and over were determined by dividing the adjusted incurred claim costs in item (3) by the average retiree exposures for the calendar year.
5. These 1991 incurred claim costs per retiree were then trended to 1992 using the 1992 medical trend rates as summarized in Appendix F. The 1992 medical claim costs before adjustment for age and sex are shown on the last page of this Appendix
6. The final adjustment was to convert the per retiree claim costs in item (5) to per retiree claim costs by age and sex of the retiree. The age/sex adjustment factors were derived from earlier AT&T experience. However, because of the limited amount of actual AT&T experience in various age/sex cells, the resulting scale of costs by age and sex was modified so that it more closely conformed to the scale of costs by age and sex which were available from other data sources. The final scale of costs used was adjusted so that the costs, when weighed by the number

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of AT&T retirees by age and sex, reproduced the average incurred claim costs in item (5), separately for retirees under and over age 65.

The resulting 1992 medical claim costs after adjustment for age and sex are summarized in Appendix F

B. Dental Benefits

The 1992 dental incurred claim costs were derived from the Company's actual 1991 claims experience and exposure data as provided by the Company. The data were for management and nonmanagement retirees and their dependents combined and all ages and sexes combined.

The following adjustments were made to the claims experience:

1. The claims were adjusted to an incurred bases by adding an amount equal to the estimated increase in the liability for claims incurred by not yet paid from the beginning to the end of the calendar year
2. The incurred claim costs were then adjusted to include insurance carrier administrative expenses
3. An average 1991 incurred claim cost per retiree was determined by dividing the incurred claim cost in item (2) by the average retiree exposure for the calendar year
4. The 1991 incurred claim cost per retiree in item (3) was then trended to 1992 using the 1992 dental trend rate shown in Appendix F.

The derivation of the 1992 composite dental claim cost per retiree is shown on the last page of this Appendix and the composite dental claim cost per retiree is also shown in Appendix F

II. The level of credibility assigned to the employer's data and records (versus the level assigned to an external data source).

The credibility of data was considered high. The claim data base is extremely large (over \$400 million in 1991). In addition, AT&T Post-retirement Retiree Medical and Dental claims data were used to determine claim costs per retiree in all cases. No claim experience of other companies or from other sources was used

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III. Procedures performed, if any, to determine the accuracy of the employer's claims data.

The claim data on the AT&T data base and the claim data derived directly from the carriers data bases are periodically audited by both AT&T internal auditors and by outside consulting firms experienced in this area. In addition, the paid claims taken from the data base are matched to the actual dollars paid by the carriers. The reconciliation is performed on a monthly basis. There also are various editing procedures followed.

IV. A description of how claims costs were grouped other than by the age bands noted above (e.g., by health care service sector. HMO vs. indemnity).

The medical claim data were grouped into five year age and sex categories. In general, different sectors i.e. hospital, surgical, etc were combined. The average per capita claims did not include HMO premiums nor were the number of retirees belonging to HMO's included in the life count for purposes of calculating the composite claim costs per retiree. The net effect was to assume that future HMO premiums paid by the company would be approximately the same as the average per capita claims of other retirees. Less than 4% of AT&T retirees elect HMO coverage.

Employer Limits on AT&T Claim Costs

For AT&T employees who retire on and after March 1, 1990, there is a limit on the amount that AT&T will contribute toward the cost of the retiree medical expense plan commencing July 1, 1995.

AT&T's contribution is limited to the following annual amounts:

Retiree Under Age 65 -- Single Coverage	\$2,650
Retiree Under Age 65 -- Joint Coverage	\$5,650
Retiree Age 65 and Over -- Single Coverage	\$850
Retiree Age 65 and Over -- Joint Coverage	\$2,350

It was assumed that AT&T's actual cost would not be greater than the limits shown above. The limits were then converted to claim costs per retiree by age and sex as follows:

For each age and sex, a composite limit was obtained by weighting the single and joint coverage limits by the proportion of single and joint coverages for that age and sex. The proportion of joint coverages for a particular age and sex was assumed to equal the Dependent Unit Ratios shown in Appendix F for that age and sex.

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The Dependent Unit Ratios were developed by starting with the Qualified Beneficiary ratios used in the Company's pension valuations. These ratios were then adjusted so that when they were applied to the current distribution of retirees by age and sex they reproduced the current number of retirees with dependents, separately for retirees under and over age 65

- V. **If net claims cost was used to project future costs, a description of how the valuation was adjusted to consider certain fixed dollar items (e.g., deductibles should not be indexed).**

Projections of average claims were made and adjustments to the trend assumptions were calculated on an approximate basis to reflect current plan provisions.

- VI. **If claims data was as of a date prior to the measurement date, a description of how such data was rolled forward to the measurement date.**

The claims data were projected from 1991 using the trend rates summarized in Appendix F

- VII. **A description of the cause of any significant variance in the per capita claims cost from the prior year.**

Material variance is expected due to the normal trend from one year to the next. It is also anticipated that the actual trend will fall below the assumed trend rate in some years and be above the assumed trend rate in other years. However, 1993 is the first year that AT&T determined postretirement benefit costs for financial purposes under SFAS 106

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**1992 Health Care Composite Claim Costs Per Retiree
Before Adjustment for Age and Sex**

		<u>Medical Plan*</u>		<u>Dental Plan *</u>
		<u>Retirees Under Age 65</u>	<u>Retirees Age 65 & Over</u>	<u>All Ages</u>
1.	1991 Paid Claims (incl. Dental DMO Fees and excl. HMO Costs)	\$288,577,268	\$111,955,294	\$35,105,808
2.	Adjustment for Class II, Sponsored and Surviving Dependent Claim Costs	\$7,748,000	\$7,445,000	—
3.	Estimated increase in Liability for Claims Incurred but Unpaid	\$16,000,000	\$6,000,000	\$464,000
4.	1991 Estimated Incurred Claims [(1) - (2) + (3)]	\$296,829,268	\$110,510,294	\$35,569,808
5.	Loading for Carrier Expenses	\$15,457,256	\$5,194,733	\$1,727,982
6.	Total [(4) + (5)]	\$312,286,524	\$115,705,027	\$37,297,790
7.	1991 Average Retiree Exposure	68.907**	56,359**	129,828
8.	1991 Average Composite Claim Cost per Retiree [(6) ÷ (7)]	\$4,532	\$2,053	\$287
9.	Trend to 1992	1.125	1.070	1.037
10.	1992 Average Composite Claim Cost per Retiree [(8) x (9)]	\$5,099	\$2,197	\$298

* Based on management and nonmanagement retiree claims combined.

** Excludes retirees enrolled in HMOs

APPENDIX H
ASSUMPTIONS FOR DETERMINING
1991 POST-RETIREMENT HEALTH CONTRIBUTIONS TO VEBAS

Demographic Assumptions (Sample Rates)

Mortality: (Rates per 1,000 during year of age $x + .5$ to $x + 1.5$)

Among Active Employees			Among Retired Employees		
<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
25	8	4	50	7.9	5.9
30	7	6	55	10.1	7.1
35	8	8	60	13.2	9.2
40	15	10	65	19.6	12.7
45	27	17	70	31.5	20.2
50	45	25	75	47.6	32.0
55	75	37	80	76.1	49.8

Separation: (Rates per 1,000 during year of service $n + .5$ to $n + 1.5$)

Management			Occupational		
<u>Service</u>	<u>Male</u>	<u>Female</u>	<u>Service</u>	<u>Male</u>	<u>Female</u>
0	112.0	118.1	0	340.0	310.0
5	67.6	88.5	5	90.6	108.3
10	53.0	70.6	10	63.6	86.3
20	39.1	57.0	20	29.1	46.3

Service Retirement: (Rates per 1,000 during year of age $x + .5$ to $x + 1.5$)

Management			Occupational		
<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Age</u>	<u>Male</u>	<u>Female</u>
50	25.4	64.5	50	60.0	52.7
55	72.1	136.3	55	92.4	76.2
60	235.6	313.3	60	232.6	211.4
65	500.0	500.0	65	600.0	500.0